HOUSING MARKET INFORMATION

HOUSING MARKET OUTLOOK
Sherbrooke CMA

CANADA MORTGAGE AND HOUSING CORPORATION

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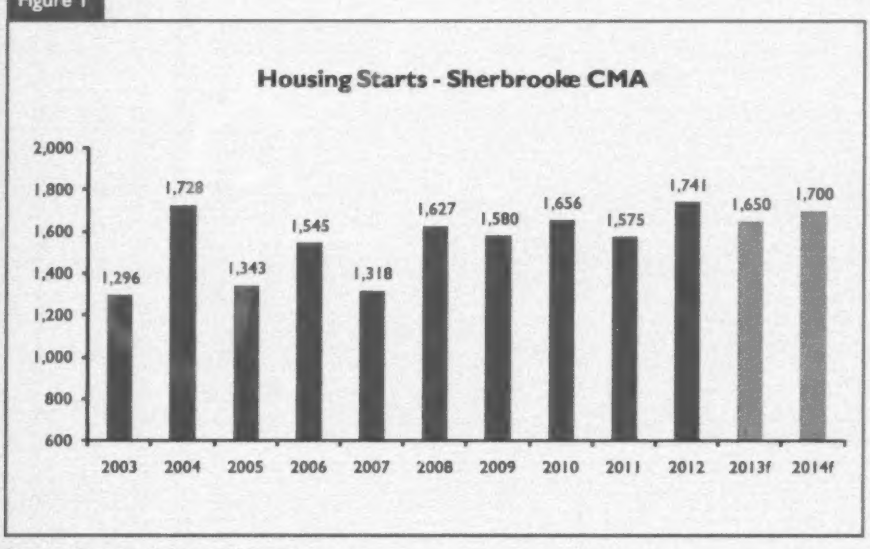
Activity on the housing market to decrease in 2013 but rebound in 2014[1]

Activity on the Sherbrooke census metropolitan area (CMA) housing market increased in 2012, but should decrease slightly in 2013.

By the end of 2013, housing starts will have dropped by 5 per cent from last year, to 1,650 units, and will then increase by 3 per cent in 2014, to around 1,700 units. In fact, starts will be impacted by the weaker performance of the labour market but will benefit from the economic recovery expected for 2014.

On the resale market, Centris® transactions should record a small

Figure 1



Source: CMHC f: CMHC forecasts

[1] The outlook is subject to uncertainty. Although point forecasts are presented in this publication, CMHC also presents forecast ranges and risks where appropriate. The forecasts included in this document reflect information available as of April 26, 2013.

Table of Contents

1 Activity on the housing market to decrease in 2013 but rebound in 2014

2 Employment to stabilize in 2013 and increase in 2014

2 Net migration to remain stable

2 Mortgage rates to see modest and gradual increases but will remain low

3 Resale market activity to decrease

3 Housing starts to moderate

4 Rental market conditions to stabilize

5 Forecast Summary

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decrease of 2 per cent by the end of 2013 (to 1,750 sales) and stabilize in 2014 (with 1,795 sales). The market will continue to ease somewhat, with prices climbing slightly.

Employment to stabilize in 2013 and increase in 2014

Uncertainty on the world markets and the slow economic recovery in the United States contributed to the stagnating employment. Sherbrooke's manufacturing sector is historically significant, but employment in this sector was affected by the U.S. economy. Also, employment in the residential construction sector could be adversely impacted by the anticipated slowdown in housing starts.

Although the unemployment rate decreased in the first quarter of 2013 compared to the first quarter of 2012, the number of jobs is on the decline. This can be explained by a reduction in the labour force due to workers who stopped looking for a job or retired.

The Canada Games that will be held this summer in Sherbrooke should have a positive one-time impact on employment. Also, the service sector, which accounts for more than half (53 per cent) of the jobs in the area, will continue to be supported by population growth. Finally, the anticipated increase in government investments[2] will help stabilize employment in 2013. Overall, economic growth in the U.S. and around the world will gain strength between now and 2014 and will drive up employment in the export-producing sector. Job gains in the Sherbrooke CMA should pick up in 2014.

Net migration to remain stable

In 2012, net migration in the Sherbrooke CMA was positive and reached 2,551 people, which represented an increase of 3 per cent year over year.

CMHC expects this level to stay the same over the next few years. In fact, between 51,000 to 53,000 immigrants could settle in the province of Quebec, which will definitely have an impact on net migration in the Sherbrooke area, given that the CMA receives around 2 per cent of these immigrants each year.

Interprovincial net migration in the Sherbrooke CMA has been positive for the past few years. In 2012, it reached 587 people. In addition, over the last two years, net migration for people from 30 to 39 years has been positive. Therefore, the area would appear to be attracting more young families, which could benefit the new home market, particularly in the more affordable segments, such as semi-detached and row homes. Like every year, net migration for people from 15 to 24 years remained positive, thanks to the many colleges and universities in the area.

For these reasons, net migration in the Sherbrooke CMA will reach close to 2,550 people in 2013 and 2,500 people in 2014. The employment recovery will certainly help maintain this level. In the short term, newcomers will stimulate demand for housing (especially rental dwellings).

Mortgage rates to see modest and gradual increases but will remain low

In line with the consensus among private sector forecasters, increases in the target for the overnight rate by the Bank of Canada are not expected before mid-2014, later than anticipated at the time of the first quarter 2013 edition of the national *Housing Market Outlook*. This reflects the downward revisions in GDP forecasts since the publication of that edition, particularly the expectations of a slower economy in 2013. The expected delay in interest rate increases will continue to be supportive of housing market activity over the forecast horizon.

According to CMHC's base case scenario for 2013, the one-year mortgage rate is forecast to be within 3.00 per cent to 3.25 per cent with an average of 3.13 per cent, while the five-year posted mortgage rate is anticipated to be within 5.00 per cent to 5.50 per cent with an average of 5.28 per cent. For 2014, the one-year posted mortgage rate is expected to rise and be in the 3.25 per cent to 3.75 per cent range with an average of 3.42 per cent, while the five-year posted mortgage rate is forecast to be within 5.25 per cent to 5.75 per cent with an average of 5.53 per cent, consistent with higher economic growth prospects in 2014.

Mortgage rates are not expected to increase until mid-2014. The anticipated small and steady increases in mortgage rates will lead to somewhat higher mortgage rates by the end of 2014. However, these rates will remain low, by historical standards, over the forecast horizon.

[2] Institut de la statistique du Québec (Investissements privés et publics, Québec et ses régions)

Resale market activity to decrease

For the last few years, the resale market has been easing in Sherbrooke. In fact, sales have remained relatively stable, while active listings have increased. Since 2012, active listings have risen by 9 per cent, while sales have declined by 12 per cent. In the fall of 2012, the resale market shifted from being balanced to favouring buyers.

In the case of demand, the slightly unfavourable job market played a role in the easing of the market. Moreover, it should be recalled that, as the housing stock grows from year to year, the potential number of Centris® sales in the Sherbrooke area also rises. As will be seen in the next section, the inventory of unsold new units has grown over the past few years, which has increased supply and provided competition for the resale market.

Given this context, sales should reach 1,750 units in 2013, for a decrease of 2 per cent year over year. In 2014, a small improvement in employment and a slightly more significant economic recovery will help strengthen sales, which should climb back by 2.5 per cent, to 1,795 units. In addition, given the combination of these factors (increase in supply and decrease in demand), the resale market stayed favourable to buyers in the first quarter of 2013 and should remain so until the end of the year. This will translate into a smaller increase in the average price in 2013 than in 2012, with a rise of 1.7 per cent to $222,000. In 2014, the rise will again be moderate (+1.8 per cent), and the average price should reach $226,000.

It should be noted that market conditions in the three major segments (single-family homes, condominiums and plexes) are currently favouring buyers. Single-family homes account for nearly 80 per cent of total sales, and transactions in this segment dropped by 11 per cent year over year in the first quarter of 2013. The condominium market, which is still relatively marginal in the CMA with some 10 per cent of all resales, eased more significantly, as sales of this type fell by 21 per cent in the first quarter of 2013 from a year earlier.

Housing starts to moderate

Housing starts in the Sherbrooke area are decreasing, as a result of the moderate economic conditions, the new environmental standards that have been raising new home prices since August 2012 and the significant easing of the resale market that has been increasing the supply of available homes on the market.

From January to May 2013, foundations were laid for close to 600 housing units in the Sherbrooke CMA. At this rate, the CMA should end 2013 with 1,650 housing starts, for a drop of 5 per cent from 2012. In 2014, stimulated by the employment recovery and economic growth, starts should increase by 3 per cent year over year and reach 1,700 units. However, they will not equal the level recorded in 2012, on account of the expected increases in interest rates.

The decrease in housing starts will be mostly felt in the homeowner housing segment, especially in the row home category. For the past few years, row homes have been popular with first-time buyers, given their affordability. Several developers managed to attract first-time buyers by stating that the monthly mortgage payments could match their monthly rent costs, thanks to the historically low interest rates. However, current economic conditions have made the movement to homeownership more difficult for first-time buyers, and demand for row homes has embarked on a downward trend, which should continue until the end of 2013.

Figure 2

Source: QFREB by Centris® f: CMHC forecasts

Single-detached housing starts are also expected to be impacted by the decrease in demand, and they should drop by 7 per cent in 2013 and then remain stable in 2014.

After recording a slight decrease in 2012, rental housing starts grew in the first five months of 2013 over the same period the year before. However, as will be seen in the next section, the vacancy rate remains relatively high in the area. It is anticipated that construction will slow down from now until the end of the year in this segment and that starts should remain stable in both 2013 and 2014.

Figure 3

Source: CMHC f: CMHC forecasts

Rental market conditions to stabilize

According to the Rental Market Survey conducted by CMHC in October 2012, the rental vacancy rate reached 5 per cent, the second highest vacancy rate among the province's metropolitan areas with 100,000 or more inhabitants. The vacancy rate has been easing significantly for the past five years, mainly as a result of a strong shift to homeownership. It should be mentioned that the increase in the size of the rental housing stock also contributed to the rise in the vacancy rate.

On the demand side, as previously mentioned, net migration is positive in the Sherbrooke area. A large portion of newcomers will turn to the rental market. The positive net migration among young people aged from 15 to 24 also pushed up demand on the rental market: Sherbrooke is a university hub with eight institutions attended by some 40,000 students. This year, enrolment reached a record level at Bishop's University.

In spite of this steady demand, it should not be forgotten that more units will be added to the rental housing stock, increasing supply on this market. As indicated in the previous section, rental housing starts should remain at a stable level in 2013, which will prevent the vacancy rate from regressing.

Under these conditions, the vacancy rate should reach 4.8 per cent in 2013 and 4.7 per cent in 2014. Given the easing trend recorded over the past few years on the rental market, the increase in the monthly rent should moderate compared to previous years. The average monthly rent for two-bedroom apartments will reach $585 this year, up by less than 1 per cent, and then $595 in 2014, for an increase of 1.7 per cent.

Forecast Summary Sherbrooke CMA Spring 2013							
	2010	2011	2012	2013f	% chg	2014f	% chg
New Home Market							
Starts:							
Single-Detached	570	557	610	570	-6.6	575	0.9
Multiples	1,086	1,018	1,131	1,080	-4.5	1,125	4.2
Starts - Total	1,656	1,575	1,741	1,650	-5.2	1,700	3.0
Average Price ($) - excluding Magog:							
Single-Detached	197,101	184,319	220,353	221,000	0.3	225,000	1.8
Median Price ($):							
Single-Detached	170,000	170,000	180,000	182,000	1.1	185,000	1.6
New Housing Price Index (% chg) (Que.)	3.1	2.6	1.7	n/a	-	n/a	-
Resale Market							
Centris® Sales	1,729	1,883	1,784	1,750	-1.9	1,795	2.6
Centris® Active Listings	1,333	1,509	1,668	1,700	1.9	1,750	2.9
Centris® Average Price ($)	205,035	215,593	218,302	222,000	1.7	226,000	1.8
Rental Market - excluding Magog in 2006							
October Vacancy Rate (%)	4.6	4.7	5.0	4.8	-	4.7	-
Two-bedroom Average Rent (October) ($)	566	577	578	585	-	595	-
Economic Overview							
Mortgage Rate (1 year) (%)	3.49	3.52	3.17	3.00 - 3.25	-	3.25 - 3.75	-
Mortgage Rate (5 year) (%)	5.61	5.37	5.27	5.00 - 5.50	-	5.25 - 5.75	-
Annual Employment Level	92,600	99,000	98,100	98,500	0.4	100,000	1.5
Employment Growth (%) - excluding Magog	-4.3	6.9	-0.9	4.4	-	2.1	-
Unemployment rate (%)	7.6	6.9	7.5	7.0	-	6.8	-
Net Migration	1,816	2,477	2,551	2,550	0.0	2,500	-2.0

The Centris® system contains all the listings of Québec real estate brokers.

Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), Statistics Canada (CANSIM), Centris® Statistics. CMHC Forecast (2013-2014)

NOTE: Rental universe = Privately initiated rental apartment structures of three units and over

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